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Prudential Investment Managers
OCTOBER 2020

Asset classes explained: A closer look at listed property

In the previous articles in our series on asset classes we explored equities and bonds – explaining how they work and how fund managers use them to generate returns for their clients. In this, the third instalment of our series, we take a closer look at listed property, and find out how investors can use property stocks to diversify the risk and returns within their investment portfolios.

What is listed property?

Listed property generally refers to companies listed on the stock exchange that either own, develop or manage property (or real estate), or all three. They offer investors the benefits associated with real estate ownership without the practical problems of being a landlord, and unlike physical real estate, these shares can be traded quickly and easily.

How do investors earn returns from listed property?

Listed property companies generate returns for investors through the rise (or fall) in their share price over time, resulting in either a capital gain or loss. Additionally, investors receive income in the form of regular

shareholder distributions of the rental income that the companies earn (often linked to inflation).

How does it differ from other equities?

Because listed property distributions are generally based on rental income that is contractually based and generally rises over time, these distributions are usually more reliable than other listed companies. This gives listed property the characteristics of both equities and bonds, making it a good diversifier of investment returns. It is primarily for this reason that listed property is considered a separate asset class to equities.

Who should invest in listed property?

Listed property investments are ideal for investors who are looking for capital and income growth over the medium to long term, have a relatively high risk tolerance and an investment time horizon of five years or longer.

What protections are in place?

Many listed property companies have adopted the regulatory framework that governs Real Estate Investment Trusts (REITs). A REIT is a type of listed property company that is governed by strict regulations in terms of its structure and operations. South Africa's REIT regulations are very similar to those in other countries, helping underpin investor confidence. For example, REITs are required to pay out at least 75% of their distributable profits to shareholders. At the same time, some companies in the sector are structured as Property Unit Trusts and must adhere to the regulations governing the unit trust industry.

How do investors get exposure to listed property?

Prudential offers investors exposure to the South African listed property sector through a variety of different unit trusts. These include our multi-asset funds (such as the Prudential Balanced and Inflation Plus Funds), which invest in a combination of equites, bonds and listed property, and the Prudential Enhanced SA Property Tracker Fund, which invests solely in the SA Listed Property sector.

To find out how much your investment would have been worth today if you had started investing in one of our top-performing funds sooner, try our Past Performance calculator. And if you're ready to start investing

with us now, you can complete an application form online in under 10 minutes.

For more information please contact your financial adviser. Alternatively, feel free to call our Client Services Team on 0860 105 775 or email us at query@prudential.co.za.